

Message Text

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SUBJ: FOREIGN ECONOMIC POLICY TOWARD AFRICA

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1. SUMMARY: EMBASSY BELIEVES ZAMBIA'S ECONOMIC DEVELOPMENT PROSPECTS HINGE ON FOUR FACTORS IN PARTICULAR: A STABLE MINERAL REVENUE BASE, AGRICULTURAL DIVERSIFICATION, PRIVATE INVESTMENT (BOTH DOMESTIC AND FOREIGN) AND BOTH INTERNAL AND EXTERNAL POLITICAL STABILITY. MANPOWER AND TRANSPORTATION PROBLEMS ARE CRITICAL AS WELL BUT RELATE TO THE FOUR BASIC FACTORS. U.S. DEVELOPMENT ASSISTANCE TO ZAMBIA SHOULD THUS ADDRESS THESE PROBLEM AREAS. THE APPROACHES TO THE MINERAL REVENUE AND TRANSPORTATION SECTORS MIGHT WELL INVOLVE INTERNATIONAL AND INTER-REGIONAL SOLUTIONS OR PROJECTS. END SUMMARY.

2. MINERAL REVENUE: IN ORDER TO ASSURE ZAMBIA A RELATIVELY STEADY MINERAL REVENUE BASE, STABILIZATION OF THE WORLD COPPER PRICE IS ESSENTIAL. ZAMBIA'S ECONOMIC DECLINE, CAUSED BY ALREADY WELL KNOWN FACTORS, HAS REACHED THE POINT WHERE EVEN A
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DRAMATIC COPPER PRICE INCREASE CANNOT BE EXPECTED TO SOLVE THE PROBLEM. (TRANSPORTATION, DISCUSSED SEPARATELY, IS ONLY ONE PROBLEM THAT WILL CONTINUE EVEN WITH A PRICE INCREASE.) MANY BELIEVE THAT A PRICE INCREASE MIGHT EVEN HAVE A NEGATIVE EFFECT BY RENEWING DEPENDENCE ON COPPER AND LESSENING EFFORTS AT AGRICULTURAL DIVERSIFICATION. HOWEVER, A REASONABLY PREDICTABLE COPPER PRICE WOULD ASSIST ZAMBIA'S PLANNERS WITH THEIR REVENUE

ESTIMATES AND PROVIDE A BASIS FOR RATIONAL FOREIGN EXCHANGE REVENUE ESTIMATES. WITH ASSURED MINIMUM EARNINGS LEVELS FROM COPPER AND OTHER MINERALS, FOREIGN EXCHANGE EARNINGS COULD BE ALLOCATED ON A CONTINUING BASIS TO THE IMPORTATION OF INPUTS NECESSARY TO SUSTAIN AGRICULTURAL AND OTHER INDUSTRIAL DEVELOPMENT. IDEALLY, DEVELOPMENT OF THE AGRICULTURAL SECTOR WOULD SLOWLY LESSEN ZAMBIA'S IMPORT DEPENDENCE.

3. THUS ANY SPEEING UP OF THE TIMETABLE FOR A COPPER AGREEMENT SHOULD BE CONSIDERED AS AN INTEGRAL PART OF DEVELOPMENT ASSISTANCE TO ZAMBIA. THE EMBASSY FULLY SUPPORTS THE APPROACH.

4. AGRICULTURAL DIVERSIFICATION: ZAMBIA'S FOOD IMPORT BILL IS OUT OF PROPORTION TO THE AGRICULTURAL POTENTIAL OF THE COUNTRY. IMPORT SUBSTITUTION BY INCREASED PRODUCTION WOULD NOT ONLY REDUCE FOREIGN EXCHANGE EXPENDITURES BUT HELP RELIEVE TRANSPORTATION BOTTLENECKS BY REDUCING IMPORTS OF WHEAT, OIL SEEDS (OR OIL), STOCKFEED, ETC. (WHILE AGRICULTURAL EXPORTS ARE TOUTED AS POTENTIAL FOREIGN EXCHANGE EARNERS THEY WOULD REQUIRE EXTERNAL TRANSPORTATION. SAVING FOREIGN EXCHANGE THROUGH IMPORT SUBSTITUTION THUS MAKES MORE SENSE TO US.) UNTIL AGRICULTURAL PRODUCTION INCREASES, CONTINUED PL 480 ASSISTANCE CAN BE JUSTIFIED. FEEDER ROAD DEVELOPMENT, MANPOWER TRAINING ALONG WITH TECHNICAL ASSISTANCE AND PRIVATE INVESTMENT IN AGRIBUSINESS ARE NECESSARY TO PROMOTE AGRICULTURAL DEVELOPMENT.

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5. PRIVATE INVESTMENT: ZAMBIA CANNOT HOPE TO FINANCE NEEDED AGRICULTURAL OR INDUSTRIAL DEVELOPMENT PROJECTS FROM GOVERNMENT REVENUES. BI- AND MULTILATERAL ASSISTANCE LOANS CAN CONTRIBUTE TO THE SHORTFALL BUT SHOULD BE CONSIDERED AS SHORT TERM SUPPLEMENTS ONLY. THE ALTERNATIVE SOURCE IS PRIVATE (DOMESTIC AND FOREIGN) FUNDING. FOOD PROCESSING, MARKETING, AND DISTRIBUTION IN ZAMBIA ARE CONTROLLED BY MISMANAGED AND TECHNICALLY INCOMPETENT PARASTATALS. THESE COMPANIES CANNOT HOPE TO COPE WITH ANY REAL GROWTH IN AGRICULTURE. THE CONCEPT OF TECHNICAL TEAMS OR ADDITIONAL MANPOWER TRAINING (PARA 7 (3) STATE REFTEL) COULD BE USED TO ASSIST IN THIS AREA BUT WE BELIEVE PRIVATE PARTICIPATION WOULD PROVIDE LONGER TERM BENEFIT AND BE MORE EFFICIENT. THE PRIVATE SECTOR (USING PERHAPS MUCH OF THE HOARDED KWACHA NOW HELD IN BANKS) COULD BE EXPECTED TO INVEST IN BOTH PLANT (BLENDING MILLS, PROCESSING EQUIPMENT) AND HUMAN RESOURCES. AS A SIDE BENEFIT, PRIVATELY MAINTAINED TRANSPORT LINKING AGRICULTURAL COMPONENTS WOULD HAVE TO BE AN IMPROVEMENT OVER THE DEMONSTRATED INCOMPETENCE OF PARASTATAL TRANSPORT AND MAINTENANCE FACILITIES.

6. CONSEQUENTLY WE BELIEVE OPIC AND, TO A LESSER EXTENT EXIM SHOULD PLAY A ROLE IN OUR DEVELOPMENT STRATEGY. THIS MEIGHT

MEAN A CHANGE IN THEIR MANDATES BUT WE BELIEVE ANY LOSSES INCURRED THROUGH INSURANCE CLAIMS WOULD BE MORE THAN OFFSET BY THE POTENTIAL CONTRIBUTION PRIVATE INVESTMENT CAN MAKE TO ZAMBIA'S ECONOMIC DEVELOPMENT.

7. TRANSPORT: ZAMBIA'S TRANSPORT PROBLEMS INTERNAL AND EXTERNAL ARE WELL KNOWN AND AFFECT ALL SECTORS OF THE ECONOMY. SPECIFIC INFRASTRUCTURE PROJECTS TO CONSIDER INCLUDE: (A) IMPROVEMENTS IN CARGO HANDLING AND MOVEMENTS AT DAR ES SALAAM (SEE PARIS REFTEL AND IBRD PAPER ON TRANSPORT PRESENTED AT JUNE CONSULTATIVE GROUP MEETING); (B) RAIL LINKAGE BETWEEN ZAMBIA RAILWAYS, MALAWI RAILWAYS AND MOZAMBIQUE RAIL AND PORT FACILITIES. (C) WAREHOUSING FACILITIES AT ALL INTERFACE POINTS. (D) AUTOMOTIVE AND TRUCK MAINTENANCE IMPROVEMENT. (E) TECHNICAL ASSISTANCE LIMITED OFFICIAL USE

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(MANPOWER) AND CAPITAL IMPROVEMENTS (MAINTENANCE AND SPARES) TO BOTH TAZARA AND ZAMBIA RAILWAYS.

8. INTERJECTED HERE IS THE POLITICAL STABILITY FACTOR WHICH PARTICULARLY AFFECTS TRANSPORTATION. ACCEPTABLE RESOLUTION OF SEVERAL SOUTHERN AFRICAN ISSUES (INCLUDING ZAIRE VS. ANGOLA, NAMIBIA, RHODESIA AND EVEN TANZANIA VS. KENYA) WOULD OPEN TRANSPORTATION OPTIONS TO ZAMBIA.

9. MANPOWER: DESPITE THE OBVIOUS MANPOWER SHORTAGES IN ZAMBIA, THERE IS NO SIMPLE SHORT TERM SOLUTION. THE SAAST PROJECT IS PROVIDING LONG TERM TRAINING FOR ZAMBIANS AND SHOULD EVENTUALLY HAVE AN IMPACT. SHORT OF THAT THE ADVANTAGES OF OTHER OPTIONS ARE LESS CLEAR. TECHNICAL ASSISTANCE PERSONNEL ABOUND IN ZAMBIA BUT THERE IS LITTLE RESIDUAL BENEFIT WHEN THEY LEAVE. COUNTERPART TRAINING, BECAUSE OF OVERWHELMING NEED FOR DOING A SPECIFIC JOB, IS OFTEN NEGLECTED. THE SAME IS TRUE FOR TECHNICAL ASSISTANCE PERSONNEL ASSIGNED TO SPECIFIC PROJECTS. THE RESIDUAL BENEFITS ARE HARD TO EVALUATE THOUGH OUR EXPERIENCE SHOWS IT TO BE NEGLIGIBLE.

9. THE SPECIALIST TEAM CONCEPT (REFTEL) HAS A GREAT DEAL OF INITIAL APPEAL. WE HAVE USED A RESIDUAL KWACHA ACCOUNT TO PROVIDE ASSISTANCE FROM THE U.S. IN THE FORM OF EXTERNAL EXAMINERS, TAX ADVISORS, COMPUTER PROGRAMMERS, RESEARCHERS, AND AGRICULTURAL OFFICERS ON A VERY SMALL SCALE. WE BELIEVE A TEAM CONCEPT, DESIGNED TO MEET A SPECIFIC TRAINING OR SHORT TERM PROJECT NEED HAS GREAT MERIT AND SHOULD BE SERIOUSLY CONSIDERED. APART FROM THAT WE WOULD STRONGLY RECOMMEND CONTINUATION OF THE CURRENT SAAST PROGRAM FOR THE FORESEEABLE FUTURE.

10. WE RECOGNIZE THAT WE HAVE NOT COME UP WITH ANY STARTLING NEW CONCEPTS BUT AT THE SAME TIME BELIEVE OUR COMMENTS REFLECT LIMITED OFFICIAL USE

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THE SITUATION IN ZAMBIA. A FINAL THOUGHT IS THAT WE WOULD AGREE TO A SHIFT AWAY FROM A BASIC HUMAN NEED APPROACH IN ZAMBIA. THE GRZ HAS INVESTED MONUMENTAL SUMS TO REACH THE CURRENT LEVEL OF SATISFYING THESE BASIC NEEDS. THE GRZ RECOGNIZES THAT IT IS NOW TIME TO INVEST IN MORE PRODUCTIVE PROJECTS WHILE MAINTAINING THE LEVEL OF SERVICES HERE...A LEVEL NOT YET REACHED IN MANY COUNTRIES. WE AGREE WITH THIS POLICY AND SUGGEST THAT OUR ASSISTANCE SHOULD GO TOWARDS BUILDING A STABLE ECONOMY WHICH IN TURN COULD, BY ITSELF, SUPPORT THE BASIC HUMAN NEEDS OF THE POPULATION.
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